



PricewaterhouseCoopers LLP  
3 Embarcadero Center  
San Francisco, CA 94111  
Direct phone (415) 498-5636  
Direct fax (813) 329-8798

to: **Lesley Cummings**

date: **November 18, 2008**

from: **Sandi Hunt & Pete Davidson**

subject: **MRMIP Enrollment  
Recommendation**

As requested, we have updated our recommendation of the Major Risk Medical Insurance Program (MRMIP) enrollment limit for calendar year 2009; our recommendation is to maintain a 7,100 member MRMIP enrollment target. In developing the recommendation, we relied upon enrollment, premium, and claims data files and other information provided by Managed Risk Medical Insurance Board (MRMIB) and participating health plan staff. Our recommendation is supported by continuing efforts by MRMIB and health plan staff to clean up and validate the underlying data; however issues with timeliness and accuracy of reported claims data continue to complicate the development of accurate projections.

MRMIP and the Guaranteed Issue Pilot Program (GIP) share a single funding amount. Thus, the number of individuals that can be covered under MRMIP is dependent on the funding remaining after the State pays its share of GIP costs. Financing of MRMIP and GIP is essentially on a pay-as-you-go basis, with annual appropriations and a stated goal of achieving a fund balance as close to zero as possible, without going negative, on June 30 of each fiscal year. Strict conformity with this goal would result in wide fluctuations in MRMIP enrollment targets from year-to-year, so we generally model results over multiple years to smooth results. Pay-as-you-go financing is particularly challenging for MRMIP/GIP due to the settlement process under which the State's and healthplans' ultimate liabilities are determined; this process generally takes several years to complete. These settlements may result in additional payments to or recoveries from the health plans in the amount of several million dollars, which directly and significantly impacts the funds available to cover MRMIP enrollees in the current period.

Projections of cash flows can be used to understand the extent to which available funds are expected to cover anticipated program expenditures during a given time period, however it does not provide information on the long-term obligations to MRMIB associated with current, past, or future enrollees. To the extent that these obligations can be reasonably estimated we recommend that reserves be established by MRMIB, which is a departure from pay-as-you-go financing. Reserves are typically established to recognize all costs expected to be incurred during a given time period, often one year. Depending on the Board's philosophy, reserves could be established reflecting the

expected net settlement liability for the next year of coverage or some portion of it; the reserves could also be built up over time or set aside immediately. The downside to establishing reserves is that those funds are no longer available to finance current and future enrollees, and the MRMIP enrollment target must be reduced to a level lower than it would be under a pay-as-you-go approach. If adequate reserves are not established and retained, MRMIB's ability to finance its existing MRMIP enrollment may be affected when the liabilities come due. However, we understand that when MRMIB has historically established reserves or maintained positive year-end fund balances in the past, these monies have been targeted and sometimes lost during the State budgeting process. Because the liabilities remain, future enrollment must then be reduced.

Several healthplan settlements, including settlements attributable to as far back as the 2003 contract year, are anticipated during fiscal years 2008-2009 and 2009-2010. For MRMIP, the most recent estimates result in recoveries due MRMIP from healthplans. While we believe reasonable estimates were performed based on the available data, past experience indicates that when requests for payment are made to the healthplans the plans become motivated to clean up the data they provided, often resulting in substantial reductions in amounts owed compared to initial estimates. The development of accurate estimates of GIP settlement liabilities is confounded by the substantial delays in healthplan reporting of claims experience. For example, 2007 experience is only available for one of the plans, though this is consistent with the timeframes set forth in statute. Barring significant legislative changes impacting GIP, we expect GIP settlement activities to continue to be an issue for several more years. In addition to outdated data, small populations lead to highly variable estimates.

For the purpose of developing the enrollment target for calendar year 2009, we projected cash flows for the remainder of fiscal year 2008-2009 and for fiscal year 2009-2010. These projections were developed with the assistance of MRMIB staff, with the specific goal of understanding the timing and amount of anticipated settlements and their impact on fund balances during the period. At this time, sufficient analysis of prospective plan settlement amounts has not been performed to carry cash flow projections beyond fiscal year 2009-2010.

The following list summarizes the primary assumptions underlying the projections:

- In May 2008, we recommended and the Board approved a MRMIP enrollment target of 7,100 members for fiscal year 2008-2009
- MRMIP's administrative vendor was directed to offer MRMIP enrollment to those on the waiting list and to continue to do so until 915 slots were offered. As of November 8, 2008, 915 slots were offered. Actual enrollment from the waiting list will not be known until December 2008. The cash flow projections reflect monthly net enrollment growth of 371 members as of November 1, 2008, and we assumed additional net growth of 300 members as of December 1, 2008. Based upon the latest expenditures and projections, it is recommended that MRMIP enrollment be allowed

to immediately return to the recommended 7,100 enrollment target through normal population decrements. No additional slots should be offered except as needed to remain at the 7,100 enrollment target.

- MRMIP enrollment as of October 2008 was approximately 7,227 members.
- Our current estimate of the annual subsidy for MRMIP enrollees for calendar year 2009 is approximately \$3,557 per member. The attached Exhibit 1 summarizes the development of this figure.
- The MRMIP fund balance (after accruals) was approximately \$0.3 million as of June 30, 2008.
- Budget appropriations
  - FY 2008-2009 appropriation for local assistance is \$37.7 million and was received September 2008. Additionally, \$1.2 million was transferred in for State Operations expenses. (State Operations is approximately 3 percent of the amount available for MRMIP/GIP).
  - An appropriation of \$10M related to SB1379 was received in October 2008. No additional allocation from SB 1379 was applied to the projections.
  - FY 2009-2010 appropriation is estimated at \$36.6 million and will be received August 2009.
- MRMIP settlements
  - \$18.2 million estimated due from plans during November 2008 and January 2009.
- GIP settlements
  - \$17.5 million estimated due to plans in November 2008.
  - \$13.0 million due to plans in June 2009.
  - \$14.8 million due to plans in January 2010.

Based on the assumptions above, we projected monthly MRMIP fund balances through the end of fiscal year 2009-2010. We modeled various MRMIP enrollment targets with a goal of positive but not excessive fund balances at the end of fiscal years 2008-2009 and 2009-2010. We assumed that positive fund balances would be retained by MRMIB; to the extent this is not true, enrollment targets will have to be decreased.

The following table summarizes the results of the cash flow projections assuming the enrollment target is unchanged at 7,100:

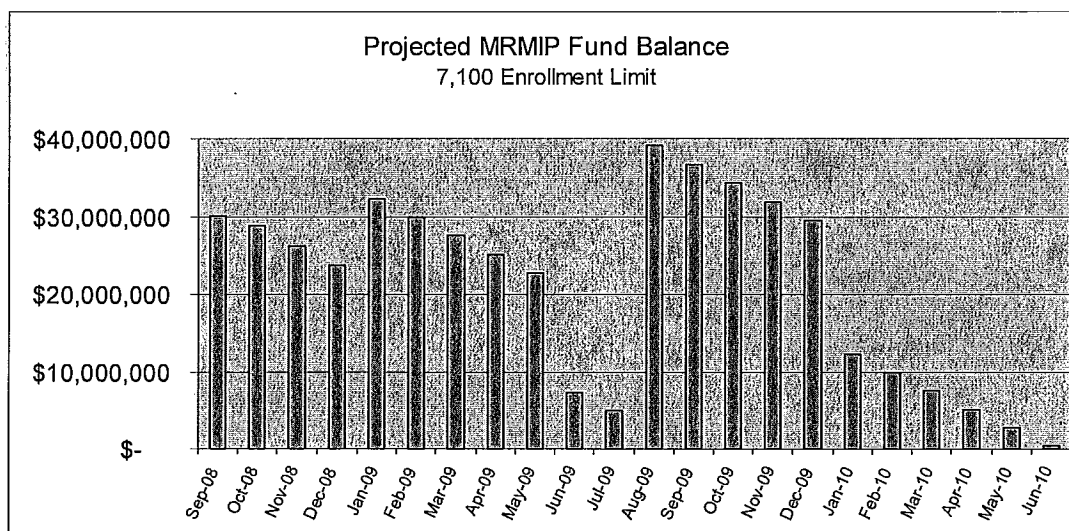
**Table 1**

<b>PROJECTED MRMIP FUND BALANCE</b>		
<b>MRMIP Membership</b>	<b>June 30, 2009</b>	<b>June 30, 2010</b>
7,100	\$7.3 million	\$0.3 million

Note that actual results could vary significantly from those displayed in Table 1 if actual timing and amount of settlements is different from that assumed.

The following chart shows the projected monthly fund balances over the two-year projection period:

**Chart 1**



We applied best estimates in developing these projections, but the uncertainties associated with the program lead to a wide range in projected fund balances. This suggests a conservative approach (e.g., establishing at least partial reserves or maintaining lower MRMIP enrollment) or an active (i.e., frequent re-evaluation) approach to selecting an enrollment target is appropriate until the settlement liabilities and receivables are known with more certainty. We are currently taking an active approach (by re-evaluating caseload, expenditures and projections at least twice a year.)

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Please call Sandi at 415-498-5365 or Pete at 415-498-5636 if you have any questions regarding these estimates.

# **California Major Risk Medical Insurance Program** **Projection of Calendar Year 2009 Average Costs**

## **Exhibit 1**

### 1. Summary of expected state costs

Average base period claim costs per person per year	\$8,131
Trend adjustment from base period to projection period	1.272
Projected claim costs per person per year	\$10,346
Benefit factor	0.930
Adjusted Claims costs	\$9,622
Average plan admin cost per person per year	\$270
Total cost per person per year for the projection period	\$9,892
Current average premium -- all plans	\$5,890
Adjustment to average expected premium level for January 2009 - December 2009	7.6%
Average expected premium January 2009 - December 2009	\$6,335
Benefit factor	1.000
Adjusted Premium	\$6,335
Average state subsidy for current enrollees	<b>\$3,557</b>
Base period loss ratio	145%
Projected loss ratio	152%